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SUBJECT: CHINESE ENGAGEMENT IN MADAGASCAR AND COMOROS

REF: STATE 10152

11. (SBU) Summary: Chinese investment stock, detailed below, reached USD 39 million in 2008 in Madagascar, while Chinese investment remains limited in the Comoros. No USG collaboration on development programs has been undertaken to date with the Chinese in either island nation. The best opportunity for partnering in Madagascar would likely be in food security, given that both the Chinese and the USG are already working in that area. Funding limitations in the Comoros would make significant collaboration with the Chinese difficult there. End summary.

#### Chinese Investment in Madagascar

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12. (SBU) Madagascar and China signed a bilateral investment treaty in 2005. In 2008, the stock of Chinese investment in Madagascar reached 39 million, according to Central Bank statistics. Investments are mainly in the oil, mining, cement, garment, and banking sectors, while Chinese contractors have been active in the construction and sugar industries. Known Chinese investments are detailed below:

- The Hong Kong company Sino Union Energy Investment Corp. (Sunpec) controls four oil exploration blocks in Madagascar, two near Majunga and two near Tulear. Sino Union, together with mainland Chinese company Shaanxi Yanchang Petroleum and Hong Kong and China Gas Co., agreed to a joint venture in 2008 to develop and operate Sino Union's block 3113 near Tulear. They contracted with another mainland company Yunnan Kaiyuan Oil and Gas to conduct exploratory drilling. Sino Union announced the discovery of light oil in block 3113 in November 2009. In January 2010, Yanchang bought 15 percent of Sino Union. Kaiyuan then acquired five percent of Sino Union shares in February 2010. Blocks 3113 and 2104 have estimated oil reserves of 5.6 billion barrels and natural gas reserves of 66 billion cubic meters, according to a statement issued by Sunpec. In November 2009, Rajoelina's father, Colonel Yves-Roger, was named as a senior consultant for Sunpec, arousing suspicions of corruption.

- A large, new Chinese Embassy compound opened in Antananarivo in January 2010. The previous embassy facility was turned over to the Malagasy government.

- Chinese contractors have been heavily involved in rehabilitating parts of the national road system and many Chinese workers have come to Madagascar for road construction. Due to the increased passenger demand, Air Madagascar began regular service to Guangzhou, China in 12009.

- In preparation for the AU summit that was to have been held in Madagascar in June 2009, the Chinese Exim Bank loaned the GOM USD 50 million to construct a convention center, five-star hotel, and 54

luxury villas. The buildings were constructed by a Chinese contractor. The convention center was turned over to the GOM, but the construction company is holding the hotel until disputes about cost overruns are settled. Sheraton had a deal with the GOM to manage the hotel, but has been blocked from entering Madagascar by the HAT Land Minister Hajo Andrianarivelo. According to an Embassy contact, a local business (SIPROMAD), known to support the HAT, brought a delegation from the Four Seasons Saudi Arabia to visit the Chinese hotel. The delegation pledged to build a cancer hospital in Madagascar and expressed interest in running the Chinese hotel and acquiring a small island in the North. After being informed of the pre-existing deal with Sheraton, the Four Seasons said they would not proceed until the HAT sorted out legal issues with Sheraton.

- Small investors are established around the country purchasing gemstones and exploiting ore reserves. Mainland Mining Ltd. began exploiting ilmenite in Analanjirofo in 2006 and had its first shipment in December 2007. The company was granted an environmental permit in April 2009.

- MALOCI, the second largest cement factory in Madagascar, was built in 2007 and began operations in August 2008.

- There are a few mainland Chinese companies involved in the garment industry, and many firms from Hong Kong. The factories that were focused on exporting to the U.S. market are in the process of downsizing and closing following the suspension of Madagascar's African Growth and Opportunity Act trade benefits.

- A Hong Kong investor holds 70 percent of the BICM bank (Banque Industrielle et Commerciale de Madagascar). Hui Chi Ming, the chairman of the board, is also the largest shareholder of Sino Union.

- The Government of China financed construction of a sugar refinery in Morondava, SUCOMA, which was turned over to the GOM, but is now run by the Chinese firm Complant under management contract signed in 1997 and expiring in 2012. Complant has also run two decrepit state-owned sugar refineries, called SUCOCOMA, in Ambilobe and Namakia since 2008 under a twenty-year management contract.

¶3. (SBU) Like other investors, the Chinese have been concerned about signing deals with the de facto authorities given the current political instability. They were openly courted by ousted President Ravalomanana and are disgruntled about the coup which ended that favorable relationship. In mid-November, following a promising breakthrough on the implementation of a unity government at negotiations in Addis Ababa, the Chinese Ambassador paid a courtesy call on the Ravalomanana-appointed co-president, now defunct, to express support for the unity government and reportedly discussed possible Chinese investment plans. However, given the failure of the unity government, large investments are on hold.

#### Chinese Trade with Madagascar

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¶4. (SBU) China was the leading supplier of imports into Madagascar in 2009. Imports from China, valued at USD 802 million in 2008, consisted mainly of fabric for transformation and re-export, but also included machinery, appliances, and other products.

¶5. (SBU) Madagascar exports little to China; however, Chinese buyers are known to be the main purchasers of illegally-felled precious rosewood and other tropical hardwoods. Some rosewood and rosewood products are then re-exported to the U.S., according to a report by the NGO "Global Witness". Local press reports have mentioned a network of Chinese based in Antananarivo that are involved in illicit export of rosewood from the Northeast.

#### Chinese Development Programs in Madagascar

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¶6. (SBU) The Chinese are involved in education, agriculture, health, and disaster relief. They do not generally attend donor coordination meetings. In education, they are providing support for the construction of primary schools in Antananarivo, Tamatave and Fianarantsoa. This project started in Dec 2008 and will end in April 2010. In 2009 through 2010, they are providing five to six tons of hybrid rice and have also provided the agriculture ministry with technical assistance in the production of rice and maize,

seeking to improve crop yields.

¶17. (SBU) The Chinese are very interested in malaria eradication. However, the activities they have undertaken over the past few years have not been coordinated with the Roll Back Malaria partnership, of which the USG is a leading member. In 2008 they provided the ministry of health with an ACT (Artemisinin Combination Therapy) malaria treatment that was not the standard ACT being used in the public sector. The minister faced political pressure to take and distribute the drug, which caused confusion among health providers, who were confronted with two different treatments. Also in 2008, the Chinese launched a program to provide mass administration of malaria treatment on the offshore island of Nosy Be. Not only does the USG believe that this is not a proven strategy for fighting malaria, but the ACT they planned to use is not on the WHO-approved list. This program was delayed by the coup and may not have been completed yet. The Chinese have also established a designated malaria lab at Befelatanana Hospital, a large public teaching hospital in Antananarivo.

#### Collaboration Possibilities in Madagascar

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¶18. (SBU) Relations between our two Embassies are amicable, but to date no "joint cooperation" has been undertaken. USG aid programs are limited currently to humanitarian assistance in response to the March 2009 coup, pending a return to constitutional order. The best opportunity for enhanced U.S.-China cooperation in Madagascar is in the area of food security, including possible future bilateral collaboration in the promotion of improved rice yields. USAID launched a multi-year USD 85 million program in the South to improve livelihoods of food insecure households and increase food production and incomes from farm production in 2009. USAID also funded teacher training previously, but due to the coup, the education program has been suspended. For the reasons mentioned above, cooperation in the health sector would be difficult.

#### China in the Comoros

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¶19. (U) Chinese involvement in Comoros is limited, but appreciated by Comoran authorities. The Chinese recently completed a new Embassy in Moroni, which is now the largest and most impressive diplomatic compound in town. On 24 January, Chinese Vice Foreign Minister Zhai Zun was in Moroni to meet President Sambi. An agreement was signed providing 30 million Yuan (USD 4.3 million) to the government of the Union of the Comoros. The Comoran authorities will identify the specific projects that will benefit from this funding. Discussions were also held on the possibility of cultural exchanges, and in particular, Chinese aid to the University of the Comoros and scholarships for Comoran students to study in China.

¶10. (U) There are no examples of U.S.-China collaboration on the ground. However, Emboff covering Comoros regularly meets with Chinese authorities during gatherings of the small international community in Moroni.

¶11. (U) At the moment, our funding limitations in the Comoros make it difficult to envisage significant partnering with the Chinese there.

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